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Report of the Inter-Agency Procurement Services Office for the biennium 2004-2005*

Summary

The present biennial report is submitted by the Administrator for the information of the Executive Board, pursuant to Executive Board decision 96/2. It provides an update on the activities of the Inter-Agency Procurement Services Office of the Bureau of Management for the biennium 2004-2005.

In line with decision 2001/13 on the biennial support budget, IAPSO has continued to be self-financing, requiring no UNDP budget support to sustain its operations. IAPSO has been able to use the revenue that it has generated to invest in procurement capacity development for UNDP and in supporting its inter-agency functions.

Elements of a decision

The Executive Board may wish to:

(a) Take note of the present report on the activities of the Inter-Agency Procurement Services Office for the biennium 2004-2005 (DP/2006/39) and its continuing self-financed status;

(b) Encourage IAPSO to continue to develop its procurement capabilities so that it remains a credible resource for procurement capacity development for the UNDP, other United Nations organizations, and partner governments; and

(c) Recommend that IAPSO continue its efforts to improve the quality of the procurement outcomes it achieves in the global supply markets in which it regularly procures on behalf of the UNDP and other eligible clients.

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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Introduction

1. The Inter-Agency Procurement Services Office (IAPSO) provides procurement and supply chain management services, procurement capacity development and e-procurement solutions to UNDP, to other United Nations organizations and to partners in development. It serves as the secretariat of the Inter-Agency Procurement Working Group (IAPWG) and supports its annual and other meetings. IAPSO continues its efforts in supplier development and inter-agency coordination functions such as the development and maintenance of the United Nations Global Marketplace and the collection and publication of United Nations procurement statistics.

2. Over the biennium 2004-2005, IAPSO has been developing and strengthening its procurement capabilities to better align them with the best practices evident in the private sector while maintaining United Nations probity and accountability standards. This has resulted in greater speed and flexibility in addressing the challenges of new and complex supply markets. It has resulted in IAPSO being able to model the very highest levels of proficiency in procurement practices, thus providing the UNDP, other United Nations organizations and partner Governments with a credible resource for procurement capacity development.

3. Within the broader United Nations family, IAPSO continues to facilitate the development of United Nations procurement practices through training, advisory and e-procurement services, including the revision and improvement of training curricula and the use of tools and techniques for improving procurement management.

4. Broadening and deepening client and stakeholder relationships, especially with UNDP country offices has been a key theme for IAPSO over the biennium. This has involved increasing the range of supply markets in which IAPSO regularly procures and the quality of the outcomes achieved through procurement efforts.

5. The result has been that IAPSO has doubles its turnover since the last biennium, while generating an operating surplus.

6. In a separate report (DP/2006/40), IAPSO will provide the Executive Board with consolidated statistics on the United Nations system procurement for 2005.

I. Financial performance

7. The range of goods and services procured and of clients served on a regular basis has increased over the biennium. Client relationships have also been deepened through the provision of value-added services such as supply market analysis and enhanced e-procurement solutions, resulting in better procurement outcomes. Improved long-term agreements have been established across a range of supply markets to the benefit of IAPSO clients. Such arrangements have also been crafted to benefit the suppliers through better alignment with the operation of markets and by addressing options such as prompt, predicable payment.

8. The financial results for the biennium 2004-2005 were consistent with those efforts. The total turnover during 2004 was $141.6 million, with an average fee of

3.25 per cent. The corresponding figures in 2005 had been $193.2 million and 2.78 per cent. During the biennium the net operating surplus was about 0.42 per cent of the turnover, while the cash reserve increased by about $1.4 million. Thus, on significantly increased turnover, IAPSO continued to generate operating surpluses while decreasing the cost of its services to clients.

9. These results enabled IAPSO to make significant investments over the period to the benefit of UNDP country office procurement capacity development and of the broader United Nations community though its inter-agency work.

II. Inter-agency services

A. Procurement capacity development

10. To be a credible resource for procurement capacity development for UNDP, other United Nations organizations and partner governments, IAPSO must itself practice procurement at the highest possible level. The stages of public procurement development from the lowest level, 'compliance with rules' to the highest, 'value chain orientation', and the systems and methods used by IAPSO at each stage are set out in table 1, in the annex. During the 2004-2005 biennium, IAPSO has enhanced its ability to effectively address procurement process management, supply chain management, and a value-chain orientation through which client programme and policy outcomes are supported. In enhancing its capabilities in this regard, IAPSO has developed associated training curricula and tools and techniques for sharing its insights with partners in development.

11. New procurement curricula covering UNDP rules and regulations for public procurement; sourcing in the public sector; contract and supplier relations management; risk management in contracting for construction services; and procurement strategy development were developed during 2005. Training courses using the new and existing curricula were delivered to a total of 459 participants in Accra, Bangkok, Banjul, Brindisi, Dar es Salaam, Dubai, Geneva, the Hague, Harare, Johannesburg, Phnom Penh, Pristine and Vienna during the biennium.

12. Tools and techniques to better support procurement capacity development were also developed by IAPSO in conjunction with the Office of Legal and Procurement Support during the biennium. This effort included development and piloting of a UNDP country office procurement capacity development package. The package includes analysis of the 'spend profile' of country offices to identify scope for improved procurement transaction efficiency; risk management in key supply markets, optimization of the total procurement effort between operational and programme management; more effective review of procurement actions by the Contracts, Assets and Procurement Committees, and training for those involved in the procurement function. The package was devised and piloted in the country offices in Afghanistan, Benin, Burkina Faso, Djibouti, Gabon, Indonesia, the Lao People's Democratic Republic, Niger, the Occupied Palestinian Territories, Sri Lanka and Thailand during the biennium. The experience resulted in further refinements of the package to be rolled out over the forthcoming biennium.

13. Procurement capacity development assignments were carried out with a number of United Nations organizations and partners in development during the

biennium, including those set out in table 2, in the annex. IAPSO plays an ongoing role in support of the UNDP-European Union partnership for electoral assistance. IAPSO is the resource for procurement support and advice when developing electoral assistance projects, including procurement strategies and plans, review of budgets and timelines, and procurement training.

B. Support to the business community

14. IAPSO undertakes a variety of activities in support of the business community, including supporting business seminars; delivering supplier development courses; publishing procurement notices on behalf of UNDP and other United Nations organizations on its website; developing and managing the United Nations Global Marketplace, and publishing consolidated statistics on United Nations system procurement.

15. A business seminar is a forum in which a supplier community is advised about how to do business with the United Nations system. These seminars must be requested by a government trade promoting entity, such as a ministry of trade, or by a chamber of commerce. The format consists of a number of United Nations organizations being invited to present information about their respective work, the scope of their procurement requirements, procedures and terms and conditions. United Nations organization representatives generally make presentations followed by questions and answers and the possibility for suppliers to meet them on a one-to-one basis. IAPSO coordinates with those organizing business seminars on behalf of all participating United Nations organizations. For greater efficiency, IAPSO has developed guidelines for the organizing entities, the United Nations participants, and the supplier community. IAPSO organizes and takes part in over 15 business seminars around the world each year.

16. IAPSO has developed the business seminar concept further by offering the supplier community an in-depth one- to two-day training course, 'How to do business with the United Nations system'. The course is designed to meet the specific training needs of the supplier community. It introduces and familiarizes participants with the concepts, processes and procedures of public procurement as carried out under United Nations rules and regulations. The overall content is similar to that covered in the business seminars, but it is covered in greater detail, in a workshop style using case studies, examples and exercises. The course can be customized to suit the specific requirements of an audience – for example, placing greater emphasis on the request for proposal process should the audience consist of service providers. The course is based on a participatory approach facilitating discussion and peer-group interaction using the stimulus of case studies and group exercises. These courses are only available upon request of an official government entity such as a ministry of trade or a chamber of commerce and are conducted on a cost-recovery basis. During the biennium courses were delivered in Copenhagen, Lima, and Moscow.

17. During the biennium IAPSO published 960 procurement notices at its website on behalf of 56 UNDP country offices and other United Nations system organizations, including Economic Commission for Africa, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Office of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Industrial Development Organization (UNIDO), the United Nations Interim Force in

Lebanon, United Nations Interim Administration Mission in Kosovo, United Nations Mission in the Sudan, the United Nations Office on Drugs and Crime, the United Nations Office at Geneva, the United Nations Office for Project Services (UNOPS), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the World Health Organization (WHO), the World Intellectual Property Organization (WIPO) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM).

18. Since 1998 IAPSO has managed and maintained the United Nations Common Supplier Database. The database was redeveloped during 2002-2003 and re-launched in 2004 under a new name, the United Nations Global Marketplace. The database now serves as the sole portal for potential suppliers to 14 United Nations organizations: the International Atomic Energy Agency, the International Labour Organization, the International Trade Centre, UNDP, UNESCO, UNFPA, UNHCR, the United Nations Children's Fund, UNIDO, UNOPS, the United Nations Procurement Service, UNRWA, the World Food Programme and WIPO. Combined, these organizations represent approximately 87 per cent of total United Nations procurement volume.

19. The United Nations Global Marketplace maintains the supplier rosters of each of these organizations, alleviating the need for multiple registrations by offering suppliers agency-specific registration. Procurement officers are able to search for suppliers using the facility. The Marketplace includes an improved search capability that enables United Nations procurement staff to specify search criteria, thereby providing greater accuracy in identifying appropriate suppliers. Other features include short-listing, data export and a long-term agreement-sharing facility for United Nations organizations. Planned enhancements are designed to establish the Marketplace as the United Nations procurement portal, featuring all relevant procurement information including procurement notices, contract awards and procurement schedules. At present, the organizations generally publish this information on their own websites. This enhancement will facilitate a 'one-stop shop' approach for United Nations procurement staff and for suppliers. The development brings with it opportunities to provide the supplier community with value- added services such as a targeted procurement notice alerts.

20. IAPSO continues to collect, consolidate and publish statistics on United Nations system procurement. Apart from its value to the Member States, the annual statistical report is used by potential suppliers to the United Nations system as a source for market research. The annual statistical report for 2004 and 2005 may be downloaded from the IAPSO website at www.iapso.org.

C. Inter-Agency Procurement Working Group

21. IAPSO has served the secretariat to IAPWG since 1978. IAPWG serves as an informal body made up of the procurement chiefs of all the United Nations organizations. In that role IAPSO supports the activities of the IAPWG, which include harmonization efforts relating to procurement and to research and development into best practices. During the biennium IAPSO continued to support the activities of IAPWG, including its annual meetings in Indonesia and Russia as well as its various sub-working groups.

III. Procurement and supply-chain management

A. Procurement services

22. Procurement volume handled by IAPSO almost doubled between the 2002-2003 and 2004-2005 biennia. This was due primarily to the deepening of relationships with key clients, especially UNDP country offices. IAPSO has been aligning its services to better support delivery of UNDP programme objectives in democratic governance (election procurement and partner government procurement capacity development); HIV/AIDS (by supporting the procurement of UNDP country offices that are principal recipients of GFATM); and in crisis prevention and recovery (by augmenting and developing the procurement capacity of country offices involved in the tsunami and Pakistan earthquake efforts). By the end of 2005, UNDP country offices represented over half the total procurement volume of IAPSO, and the number of country offices using IAPSO procurement services regularly increased from 71 in 2004 to 81 in 2005. Table 3 provides a breakdown of IAPSO procurement activities by product; table 4 provides a breakdown by client group.

23. Where IAPSO procures repeatedly in certain supply markets, it establishes long-term agreements under prearranged terms and conditions with suppliers. Prior to establishing such arrangements, IAPSO undertakes systematic analyses of demand, stakeholder interests and the supply market as a basis for framing its procurement strategy. In so doing, IAPSO identifies the best ways to meet its procurement objectives for the benefit of its clients and to manage risks effectively. This technique has been applied very successfully to the supply markets relevant to UNDP country offices that are principal recipients of GFATM. An analysis of the market for motor vehicles and the subsequent procurement strategy resulted in certain developing-country vehicle manufacturers bidding, for the first time, to be included in a long-term agreement established by IAPSO. In the information technology equipment market, the technique enabled IAPSO to establish global accounts with key manufacturers. Previously, it had only been possible to establish long-term agreements with distributors that could not offer world-wide warranty and after-sales service and support. By developing its capability in these sophisticated analytical techniques, IAPSO appreciably improved the quality of the procurement outcomes it achieved in key supply markets during the biennium.

24. During the biennium, IAPSO significantly increased the range of supply markets in which it procured repeatedly and therefore sought to support this activity with appropriate long-term agreements. Since the latter part of the biennium, IAPSO has also become responsible for establishing and managing global UNDP long-term agreements, including those for goods and services.

B. Sourcing from developing countries

25. The global supply markets in which IAPSO primarily procures are dominated by developed-country suppliers. This notwithstanding, IAPSO procured 22 per cent of its volume by value directly from developing countries in 2005 – an improvement of 8 per cent over the 2004 volume. An examination of the volume by vendors during 2005 indicated that a further 10 per cent was sourced from developed-country suppliers that sourced the product procured by IAPSO almost exclusively

from developing countries. Also, certain items, while sourced through developed country distributors, are generally manufactured in developing countries — for example, products related to election polling kits, such as ink. Some major developed-country suppliers fabricate certain of their products in developing countries. For example, a major supplier of motor vehicles manufactures certain vehicles supplied to IAPSO in Thailand and South Africa. The statistical data, however, do not reflect the country of origin but the location of the supplier with which the contract was made. As a result, the representation of developing country inputs in the supply chain is underestimated.

C. Electronic or e-procurement

26. In the 2004-2005 biennium, IAPSO continued to develop its e-procurement system, UNWebBuy (www.unwebbuy.org). This system was further customized to support complex procurement and supply chain management for drugs and associated products to address tuberculosis as part of IAPSO services to the Global Drug Facility. UNWebBuy was enhanced through an interface with the UNDP enterprise resource planning system known as 'Atlas'.

27. Further development of the IAPSO web-based tender system was undertaken to allow potential suppliers to enter all technical, product, availability and pricing data online. Motor vehicle, motorcycle, and pharmaceutical tenders were managed by IAPSO during the biennium using the system. In addition, IAPSO customized the facility for use by UNHCR for a tent tendering exercise. The experience with all the online tendering processes indicated that developing country suppliers were able to participate successfully.

28. WHO became the first United Nations organization to use the IAPSO e-procurement system when it started implementing a customized version of UNWebBuy in 2004. The module handling purchase authorizations, both spot-buy and catalogue, was completed during that year, and the modules for purchase order, item dispatch and pre-processing, and interfaces to the financial management information system were specified and developed during the biennium. The completed system was fully deployed in May 2006.

29. The e-procurement capabilities of IAPSO are increasingly recognized, and in the latter part of 2004 IAPSO was invited to develop a prototype electronic marketplace to support pooled procurement by GFATM principal recipients. The prototype was demonstrated at the time of the GFATM Board meeting in April 2005.

30. During the latter part of the biennium, in association with UNDP Nigeria, IAPSO commenced a project to develop and deploy a range of e-procurement solutions for the Nigerian Federal Capital Territory. The project, which is ongoing, will be completed by the end of 2006.

Annex

Table 1. The IAPSO approach to procurement

Approach	Systems and method	Outcome
Value chain orientation	Procurement strategy supports delivery of programme/service delivery/policy outcomes Balanced scorecard Supplier and customer relationship management systems	Results-oriented procurement and supply chain management Optimize client satisfaction, learning/innovation, processes and financial results Stimulate product/service innovations
Supply chain management	Supply, demand and stakeholder analysis Internet-based logistics support 'tracking and tracing' system Vendor performance management system 'Perfect Order'	Supply chain strengths, weaknesses and opportunities identified and addressed Up-to-date market intelligence and competition surveillance Monitoring shipment and delivery through to the final destination Performance measurement of delivery accuracy, order completeness and error/damage rate
Procurement process management	Risk and spending analysis Atlas-generated management information	Proactive risk and spending management
Purchasing coordination	Internal/external aggregation and pooling of demand Global freight-forwarding agreement between IAPSO, UNICEF and UNHCR Sharing of United Nations system long-term agreements Global cargo insurance	Cost reductions in goods/services, and transaction cost reductions Direct cost savings and improved service levels for air and sea freight Complete procurement service delivery including cost, freight and insurance
Commercial approach	Commercially advantageous long-term agreements with suppliers Supporting technical experience with commercial/analytical expertise	Cost reductions and risk management Complex procurement capacity
Transaction efficiency	Standardized procurement processes, procedures and practices ERP system Atlas automation of purchase to pay cycle Electronic tendering system 'UNWebtender' Supplier management database system 'UN Global Marketplace' Online catalogue based commodity ordering from 'UNWebBuy'	Efficient execution and management of the procurement cycle Simplified and automated solicitation and tender evaluation process Open and competitive sourcing and solicitation processes Direct client-driven quotations and online ordering capability
Compliance with rules	Internal control environment UNDP procurement rules and regulations Delegation of procurement authority from UNDP chief procurement officer to UNDP/IAPSO Director upon the recommendation of the Contracts, Assets and Procurement Committee	Accountability, transparency, integrity and fairness

Table 2. IAPSO procurement capacity development

Client	Country	Year	Assignment
UNDP/European Union	Missions to Benin, Nigeria, Mauritania, Sierra Leone and others	2005-ongoing	In support of the UNDP-European Union partnership for electoral assistance, IAPSO is the resource centre for procurement support and advice in developing electoral assistance projects (including procurement strategies and plans), reviewing budgets and timelines, and providing procurement training as needed.
Federal Capital Territory – FCT (Abuja)/UNDP	Nigeria	2005-ongoing	In cooperation with UNDP Nigeria, IAPSO provides procurement advisory services to the FCT, including development of e-procurement solutions, streamlining procurement processes, and procurement capacity development.
World Bank	India and Pakistan	2005	Provided procurement capacity assessment of targeted public entities and development of capacity enhancement strategies.
World Food Programme	Italy	2005	Provided procurement advisory services to assist WFP to develop specifications for e-procurement solutions, including analysing procurement spending profile and redesigning procurement workflow.
Asian Development Bank (AsDB)	Philippines	2005	Reviewed administrative procurement organization and processes of AsDB, including recommendations to improve the organization, streamline procurement processes and develop strategies for specific commodity groups.
UNDP	Thailand	2004	Reviewed the procurement spending and processes of 18 United Nations organizations based in Bangkok to develop strategies for improving the procurement function through buying consortiums, e-procurement, and removing bureaucratic obstacles.
Organisation for the Prohibition of Chemical Weapons	The Netherlands	2004	Reviewed the procurement function of OPCW in the Hague. Facilitated workshop to develop a new procurement strategy for the organization.

Table 3. IAPSO procurement by major product group

Product group	2004		2005	
	Amount ($ millions)	%	Amount ($ millions)	%
Motor vehicles and spare parts	55.3	39	46.5	24
Electoral equipment	23.2	16.4	60.7	31.4
IT equipment	8.6	6	4.2	2.2
Pharmaceuticals	25	17.7	51.2	26.5
Freight	17.5	12.4	18.1	9.4
Other technical equipment	12	8.5	12.5	6.5
Total	141.6	100.0	193.2	100.0

Table 4. IAPSO procurement services by client group

Client group	2004		2005	
	Amount ($ millions)	%	Amount ($ millions)	%
UNDP	67.6	47.8	101.8	52.6
Non-governmental organizations, donor Governments, bilateral and international development entities	32	22.6	25	13.1
Programme country governments	12.4	8.7	8.3	4.3
United Nations organizations	26.7	18.9	56.2	29
United Nations and eligible diplomatic staff members	2.9	2	1.9	1
Total	141.6	100	193.2	100